RETIREMENT PLANNING

Whitepaper

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Planning for the Ultimate Transition:

RETIREMENT

Retirement is one of the most important life transitions you'll experience and getting it right takes planning. Naturally, when we transition from one phase of our lives into another, we are met with seemingly conflicting emotions—enthusiasm and fear, anticipation and apprehension, excitement and self-doubt. As one of life's ultimate transitions, retirement is certainly no exception.

How much money will I need to retire? How will I generate enough income to fund my lifestyle? What will I do with my extra time? Where should I even begin?

Retirement isn't what it used to be. Longer life expectancies, rising healthcare costs, and the virtual disappearance of defined benefit pension plans have introduced new financial challenges to the retirement landscape that make personal planning more critical than ever. However, the majority of Americans are unprepared to convert their financial resources into a steady stream of income while managing the personal and emotional aspects of this life major change.

Planning for retirement is about so much more than numbers. In fact, during the retirement planning process, you may discover that your thoughts turn to deeper issues than just money. Many people consider retirement to be a time to finally explore new potentials. For others, retirement may present an opportunity to fulfill their true purpose, follow their innermost calling, leave a legacy for future generations, or strive to make a difference in their community or the world at large. Some choose to spend their time exploring their creative sides or diving deeper into their spirituality.

The value of starting your planning now is to integrate more of what is important to you into your life sooner. Pre-retirees aren't just planning for retirement, they are planning for life.

Despite the many choices to be made regarding your future plans and your financial security, retirement planning doesn't have to be a daunting task. The key is to approach the process one step at a time. Putting a blueprint in place will not only assuage your emotions, but also mentally and financially prepare you to embrace the possibilities your post-working years have to offer.

PLANNING AHEAD CAN:

- Help foster positive feelings about your future, rather than a fear of the unknown.
- Stimulate personal growth and development. Life is a wondrous journey! Where do you want yours to go?
- Help you focus on the desired result and overcome frustration when "bumps" happen along the way– and they will!
- Provide a long-term framework for making daily decisions.

This whitepaper focuses on both the personal and financial aspects of retirement planning. We will help you to identify retirement goals, estimate your retirement expenses, and create a retirement paycheck from various resources while minimizing taxes and providing for the longevity of your income. We will also look at what it takes to smoothly transition to your retirement years. Since women face unique retirement challenges due to longer life expectancies and various caretaking roles, we have included a final section addressing some of these key concerns and how to reasonably approach them.

Step 1:

IDENTIFY YOUR RETIREMENT GOALS

Setting goals is like having a time machine. It is a method of anticipating, planning, and preparing for your future. It helps you picture what you want to achieve and, more importantly, how you want your life to feel once you have attained what you are aiming for.

For pre-retirees, the first question to answer will be **"When can I retire?"** Answering this question involves measuring your current resources against your retirement goals and anticipated expenses in order to determine whether or not you have achieved the financial independence needed to support yourself over your lifetime. Once the ratio of your resources to expenses promises a high probability of success, you will be ready to begin designing a fulfilling life for yourself in retirement.

In order to build the plan you *need*, begin by determining the retirement you *want*. Take an objective look at your life and the way you see yourself spending your retirement years. What is important to you? What do you hope to accomplish in these later chapters of your life? How can you design your life to accomplish the things which are important and meaningful to you? Designing a fulfilling life in retirement requires focusing on these components and aligning them with your values.

TAKE INVENTORY OF YOUR PERSONAL RETIREMENT EXPECTATIONS

Work Expectations:

- Do you plan to discontinue work all at once, or do you plan to retire gradually?
- Is your work important to you? Do you fear you'll lack a sense of purpose once you stop working?

Personal Expectations:

- Are you looking to travel? Maybe you'd like to spend more time with your family? Or perhaps you hope to continue working in a part-time capacity?
- Do you feel like your identity may change in retirement?
- What do you plan to do in your free time? What activities might you pursue to stay mentally and physically stimulated?
- Will any of your current relationships change in retirement?

You and Your Spouse:

- Have you discussed your retirement plans with your spouse? Do you have a shared vision?
- Does your spouse plan to retire with you, before you, or after you?

Financial Expectations:

- In how many years do you plan to retire?
- Will you be carrying any outstanding debts or loans into retirement?
- How may your spending habits change relative to those today?
- Do you expect your retirement expenses to increase or decrease?

Just as no two individuals are the same, neither are their retirement plans. However, it is our experience that these financial goals are a common denominator amongst most retirees:

I Want My Assets to Last Throughout My Lifetime:

Running out of money is one of the biggest risks a retiree faces. Being forced to return to work or rely on other family members for support is a common source of anxiety. And with life expectancies increasing, retirees are tasked with generating income for longer periods of time. Where previous generations may have only lived five to ten years into retirement, individuals are now enjoying 15-30+ years of post-working life and this continues to increase. This means that one's resources must be leveraged to provide steady, long-term returns that both outpace inflation and hedge against inevitable market volatility.

I Want to Maintain My Current Lifestyle:

Unless you work in an industry with a reverse earnings curve (professional athletes, for example) or came into sudden money early in life, chances are that you earned your way, year after year, into a more comfortable lifestyle. Your circumstances likely improved with experience and age. No one wants to live a diminished lifestyle after so many years working hard to get where they are. In order to generate the income required to maintain your current lifestyle, you'll need to maintain, and even improve, your purchasing power to counterbalance the injurious power of inflation. This is doubly imperative for retirees since health-related expenses are disproportionately inflated compared to the prices of other goods and services.

I Want to Have More Financial Freedom:

For some retirees, financial freedom is the number one priority in retirement. Now that they are unfettered from the responsibilities or time constraints of working life, they desire the financial freedom to travel, purchase a second home, make charitable contributions, or give financial assistance to family members without having to worry about whether or not their decisions will negatively impact the other areas of their financial life.

I Want to Leave a Legacy for My Heirs and/or Community:

For some retirees, the ability to bequeath a monetary legacy to their heirs trumps spending on themselves during the course of their own lifetime. In this case, the retiree may seek to position their wealth for maximum long-term growth. Retirees who are philanthropic may feel strongly about making their mark with charitable contributions, whether that is in the form of donating scholarships or funding a community enhancement initiative.

I Want to Take Advantage of All My Financial Resources to Live Retirement to the Fullest:

Some retirees prefer to live their retirement to the fullest with little concern for leaving any assets behind. No one can predict the duration of their own lifespan, though, so living according to this philosophy comes with risks. This goal is achievable, however, with the proper asset allocation and understanding the purpose behind your retirement expenditures. The key is to formulate or structure your plan in such a way that mitigates risk while still allowing you to take full advantage of your resources in your lifetime.

In reality, most retirees' plans will include a mixture of the above goals, ordered in importance according to his or her own values and life planning decisions.

Step 2:

KNOW YOUR NUMBERS

Making sure you have a comfortable retirement from a financial perspective is a long process that takes years of continuous saving and following a plan. Once you've reached retirement, maximizing your finances in retirement is a continuing process that lasts the rest of your life.

SOME COMMON QUESTIONS INCLUDE:

- How much should I save?
- How should my investments be allocated?
- Should I consider alternative work options to transition into retirement? Part-time work, consulting or, starting a business?
- How do I create a retirement paycheck?
- Should I take my pension as a lump sum or monthly payment?
- What is the best strategy for portfolio withdrawals?
- What company benefits carry over to retirement? Life, health, pension, deferred comp, stock, etc.
- When is the optimum time to file for Social Security?
- Should I reduce my debt? Pay off the mortgage?
- How much do I need? Can I take extra?
- Should I rollover my 401k?
- What are my healthcare options?
- Where should I retire?
- What can I do to minimize taxes?

ESTIMATING YOUR EXPENSES

Understanding your current expenses will help you to extrapolate your retirement expenses by allowing you to see which expenses will change and which will stay the same. If you currently have a written budget, taking a look at your spending and savings is the perfect place to start. If you don't already have your budget written down, you'll want to create a list that details how you currently utilize your money so that you can estimate how that might change in the future.

For example, retirees who plan to leave the workforce completely can cut out work-related expenses such as transportation, wardrobe, or dry-cleaning costs. And since you may no longer be contributing to some of your retirement plans once you enter retirement, you can eliminate those expenses from your budget as well. Will your health insurance plan change once you leave the workforce? Do you anticipate paying off your home or other debts? And in lieu of working you may plan to spend your time participating in activities that carry expenses you aren't accustomed to paying for now. The following checklist can help you to appraise and calculate your projected expenses.

In order to get a reasonable view of your retirement cost, it's wise to break your expenditures into two categories: discretionary and non-discretionary. Then, you will need to evaluate how long you anticipate needing to cover those costs based on your personal circumstances. The final step in estimating how much you will need to live a long and fulfilled retirement is factoring in inflation, so that you can maintain the purchasing power you need to be financially successful.

NON-DISCRETIONARY EXPENSES

When it comes to building a preliminary retirement budget, you'll want to separate your expenses into those that you cannot avoid and those which can be eliminated, if necessary. The first category, non-discretionary expenses, is comprised of expenses that you don't have much control over and will likely remain unchanged over the long-term. If you aren't planning on relocating, you may already have these numbers on hand. However, if you are thinking of moving, you may need to do some research into the cost of living, housing prices, and insurance prices of your destination.

Non-Discretionary Expenses	Estimate
Living Expenses	
• Mortgage or Rent (including insurance and property taxes):	
• Electric and/or Gas:	
• Groceries:	
• Clothing:	
• Other:	
Healthcare	
• Insurance (health and long-term care):	
• Prescription Drugs:	
• Emergencies:	
• Other:	
Taxes	
• Income Taxes:	
• Capital Gains Tax (if applicable):	
Debt	
• Mortgage:	
• Credit Cards:	
• Other Outstanding Notes:	
Transportation	
• Vehicle Payment:	
• Insurance:	
• Maintenance (oil changes, tires, etc.):	
• Emergencies:	
• Other:	
Total:	

DISCRETIONARY EXPENSES

The second category is discretionary expenses, which are projected expenses that you could live without, if needed. But, for some, one or more of the items on this list may be things you deem absolutely necessary for your personal fulfillment. In that case, add them to your "non-discretionary" list to get a clearer picture of your projected need.

Discretionary Expenses	Estimate
Estimated Travel (per year):	
Entertainment:	
• Cable/ Internet	
• Media Subscriptions	
• Dining Out	
Hobbies (golf, tennis, pottery, classes, etc.):	
Additional Vehicles:	
Support for Children or Grandchildren:	
Holidays:	
Charitable Contributions:	
Total:	

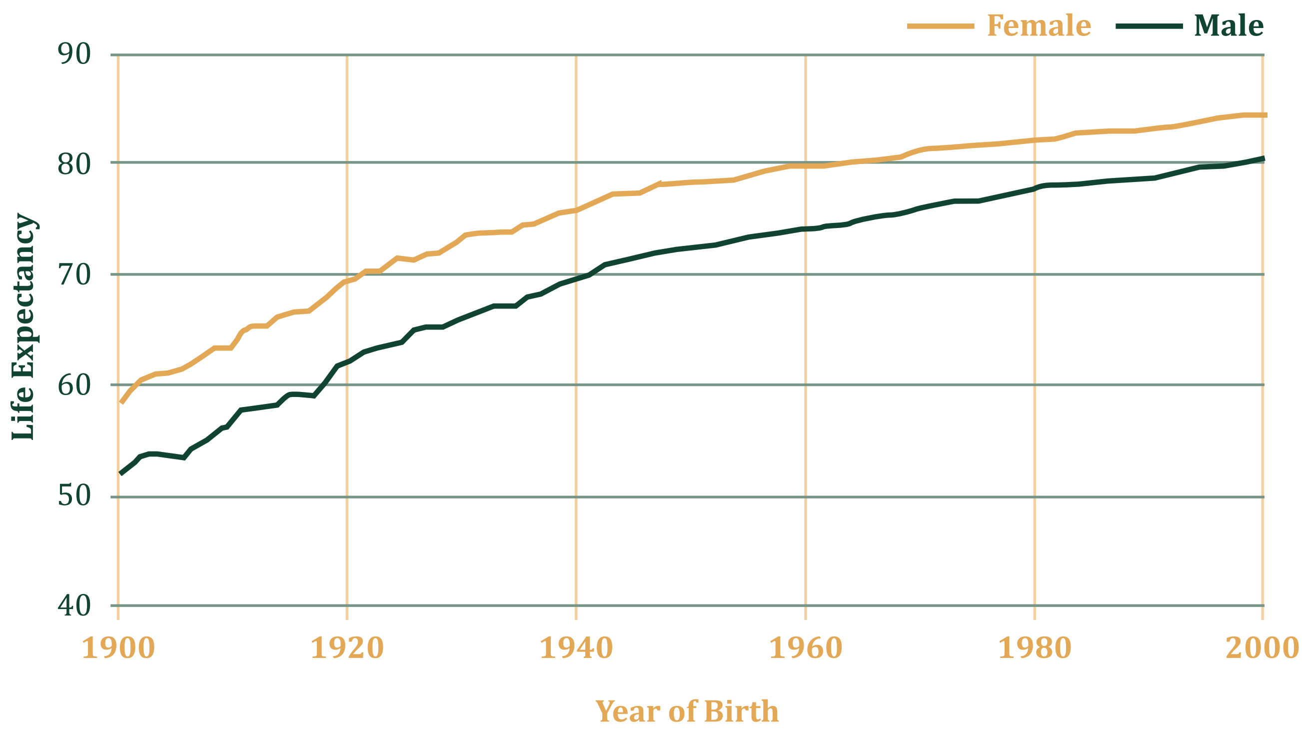
PROJECTED TIMELINE

Of course, no one can say with certainty how long they will need to generate retirement income since our life expectancy is unknown. But identifying an estimated time horizon is imperative not only to (a) estimate how much money you will need to retire, but also to (b) identify the investment risk needed to meet your goals.

The following graph shows the steady increase in life expectancies from the year 1900-2000. According to the Social Security Administration, a man reaching age 65 today can expect to live, on average, until age 84.3. A woman turning age 65 today can expect to live, on average, until age 86.7. However, these are only averages, which means roughly half of those individuals are expected to live even longer. Additionally, an estimated 25% of 65 year-year-olds today will live past age 90, and 10% past 100.[i]

With such a long retirement to look forward to, your retirement plan needs to account for longevity. We recommend estimating an additional five to ten years to stay on the safe side, however, this should also consider your personal health circumstances.

Figure 1 **LIFE TABLES FOR THE UNITED STATES SOCIAL SECURITY AREA 1900-2100;**
Actuarial Study 120.



SOURCE: Social Security Administration (www.ssa.gov).

INFLATION

Once you have calculated your living expenses and time horizon, you'll need to factor in one the most formidable foes to retirement income: inflation.

Inflation is the economic progression by which the prices of goods and services increases and the purchasing power of the dollar decreases. Inflation is the reason a hamburger in the 1950s may have put you out ten cents, but we pay around five dollars for that same hamburger today.

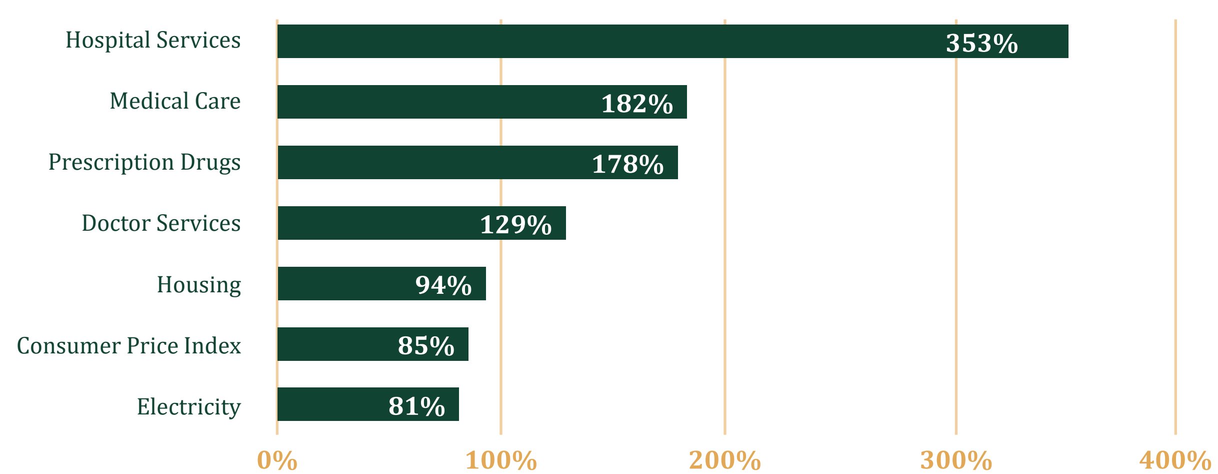
Since 1925, the annual inflation rate has averaged around 3% per year. If this rate continues, a million dollars in your account today will only be worth about $400,000 thirty years from now if it isn't invested.

In other words, you'll need more of "today's dollars" to maintain your current lifestyle ten, twenty, and thirty years from now. The same $50,000 worth of goods and services today will cost you $120,000 in 2050. Failing to account for inflation in your retirement estimate can be the final determinant of whether you outlive your assets or your assets outlive you.

INFLATION HITS RETIREES THE HARDEST

Even when the average annual inflation rate seems to be relatively low, the prices of goods and services continue to wax and wane. Unfortunately, as Figure 2 indicates, the categories that have been hit the hardest are those that comprise the majority of retirees' budgets.

Figure 2 Price Changes in Expense Goods December 1989-December 2017



SOURCE: Bureau of Labor and Statistics. Consumer Price Index Data 12/31/1990-12/31/17.

Step 3:

FUNDING YOUR RETIREMENT VISION

Once you have developed a vision for your retirement, identified your core expenses, and pinpointed where you would like to spend your discretionary income, you're ready to begin creating a funding plan from your resources.

In retirement, we are charged with creating our own income stream from the resources we have accumulated in our working years. The first priority will be to make sure you have your core expenses covered with a retirement paycheck, then you can begin filling other "buckets" to cover discretionary expenses such as travel, gifting to family or charity, or purchasing a second home. In many cases, it is beneficial to match dependable income sources such as pension plans or social security benefits with fixed retirement expenses, while coordinating other investment income with your discretionary expenses.

Since everyone will approach retirement with different goals, needs, and risk tolerance levels, not everyone's retirement paycheck will be put together in the same fashion.

IN FACT, MOST "PAYCHECKS" WILL BE CRAFTED FROM A COMBINATION OF SOME OR ALL OF THE FOLLOWING RESOURCES:

1) Pension Plans:

Even though defined benefit pension plans provided by employers are becoming extinct, some individuals will still be able to count on this type of income from the working years when these plans were more popular. With a pension plan, the issuing government or company promises to pay the retiree a certain amount over their lifetime (and often the lifetime of their spouse depending on elections made during employment). Because pension plans are defined benefit plans, the retiree knows exactly what amount to expect each month and can use it as a base to begin covering living expenses.

2) Employee Sponsored Retirement Accounts:

If your employer offers a 401(k) or 403(b) retirement account, you'll want to take full advantage, especially if your employer offers a matching contribution! Matching contributions vary from company to company and can make it easier to meet your retirement income needs. While your contributions will be tax deductible, your withdrawals in retirement will be taxed, so you'll want to make sure and account for those expenses in your retirement budget.

8 in 10 workers expect their workplace retirement savings plan will be a significant source of their income in retirement (versus half of retirees)

SOURCE: 2018 Retirement Confidence Survey. Employee Benefit Research Institute. April 8, 2019.

3) Individual Retirement Accounts:

At some juncture in the retirement planning process, individuals may notice that the maximum contribution limits on their employee-sponsored plans won't be near enough to cover their future living expenses. As such, many pre-retirees elect to also contribute to Individual Retirement Accounts (IRA)s. Your tax deduction eligibility on these contributions will depend on whether or not you already participate in an employee-related plan and your Adjusted Gross Income (AGI).

Many folks will opt to open a Roth IRA due to these accounts' tax-sheltered benefits. While Roth contributions are not deductible, Roth **distributions are income tax-free** *if* (1) the account is more than 5 years old, (2) you are at least 59 ½ years old, (3) you become disabled, (4) or withdraw up to $10,000 for first-time home buying expenses.[ii] Unfortunately, Roth contributions phase out for higher earners. In this case, though, individuals may choose to take advantage of a Backdoor Roth conversion—the rollover of traditional IRA funds into a Roth account up to one time per year. While this strategy of making a Roth IRA contribution through the "back door" seems relatively straightforward, there are some important caveats to consider. We recommend consulting a financial professional before executing this strategy.

4) Social Security Benefits:

Social security benefits might not comprise the majority of your income, but as a piece of your overall strategy, they can certainly help to narrow the deficit between your income and expenses. Social Security benefits can be especially beneficial for bridging the gap between the early retirement years and the age at which retirees must begin taking the Required Minimum Distributions (RMD) from their tax-sheltered IRAs and 401 (k)s. However, your benefit amount will vary depending on the age in which you begin taking them.

WHEN SHOULD I START TAKING MY SOCIAL SECURITY BENEFITS?

When it comes to retirement planning, this is one of the most popular questions we are asked as financial advisors: *When should I start taking my social security benefits?*

- Should I take my benefits early and bear the brunt of a decreased benefit amount?
- Or should I wait until my Full Retirement Age (FRA)?
- Or would I benefit most from delaying my benefits and take advantage of the increased allowance for those who wait until they are 70?

Age 62 is the earliest you are eligible to begin claiming benefits, but you will pay a penalty in the form of reduced lifetime benefits for doing so. For example, someone whose full retirement age is 66 would have his or her monthly benefit check reduced by 25% ***for life*** by commencing retirement benefits at age 62.

Full Retirement Age (FRA) is reached between ages 66 and 70, depending on the year you were born (Figure 3), and marks the year when you qualify to begin taking your full Social Security retirement benefit without penalty. However, if you choose to postpone taking benefits until after you reach Full Retirement Age, its value will continue to increase each month you delay until you reach age 70.

Figure 3 Social Security Full Retirement Age

Year of Birth	Full Retirement Age
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

DATA SOURCE: Social Security Administration (www.ssa.gov)

Overall, the decision to accept or delay Social Security benefits should not be made in isolation, but in the context of your overall financial framework. In order to time your social security benefits in a way that maximizes long-term income, you'll need to analyze the projected performance of the other assets in your portfolio. If you're married, the matter is further complicated as you'll want to coordinate claims in such a way that maximizes both survivor and spousal benefits.

5) Investment Portfolio:

Your portfolio should always take into consideration your personal risk tolerance level, life expectancy, and other retirement income resources to determine your proper asset allocation. Most portfolios are comprised of a mix of equities (stocks), fixed income (bonds), and cash and cash equivalents. For most retirees, having some allocation to equities is imperative to ensuring their portfolio will be able to outpace inflation and last throughout their lifetime. While the inherent risk in the stock market may feel unsettling to some, most investors need exposure to *the gain equities can provide* in order to meet their long-term goals. The goal is to balance the allocation to equities with investments in other asset classes in order to counterpoise market risk.

Fundamentally, the amount of each asset class in your portfolio, or your asset allocation, will be determined by your objectives. Will you be using your portfolio primarily to cover living expenses or to increase wealth for your heirs? With so many options available, it's best to consult with a Certified Financial Planner™ professional who will ensure your assets are suitably allocated, your portfolio is properly diversified, and your investments are generating the income you'll need for retirement (without *overexposing* you to unnecessary market risk).

RELATIVE RISKS OF DIFFERENT INVESTMENTS

LOW — HIGH

MONEY MARKET/ SHORT TERM
- Money Market Funds
- Certificates of Deposit
- Treasury Bills

BONDS/FIXED INCOME
- Foreign Bonds
- US Corporate Bonds
- US Government Bonds

STOCKS
- International
- Small Company
- Mid-sized Company
- Large Company

DID YOU KNOW?

As you near retirement, you should reconsider the risk you'll want to carry in your portfolio. Younger investors have more time to recover from market volatility and they are still adding to their portfolios, mitigating the impact of a market downturn. If you enter retirement with a portfolio heavy in equities, you expose your retirement income to a major potential for loss, not to mention the emotional impact. Use your retirement plan to assist you in shifting your portfolio allocation to the right mix of investment vehicles.

6) Work:

Many retirees find it both mentally and financially beneficial to work during retirement. In fact, consulting has grown in popularity as a post-career choice amongst retiring professionals. Some people enjoy the social interaction and mental stimulation that working provides, while others decide to work during retirement to defer taking government benefits and avoid depleting their assets. After all, untouched assets will continue to compound over time, increasing both your overall spending threshold and retirement longevity, depending on your preference and risk tolerance.

Nearly nine in ten workers who say they will work for pay in retirement say this will be a source of income for them (87%), although just 30% expect it to be a major source of income.[iii] While working may not be an option for everyone, it can certainly help to provide some increased financial flexibility or allow you to defer taking other benefits.

7) Stock Options and Restricted Stock:

If you have a stock plan through your employer, the decisions that you make during your pre-retirement years can directly affect when you can retire and what level of income you can enjoy in those years.

While this type of equity compensation can greatly benefit you during your working years, it is a concentrated risk in your retirement portfolio. Once you retire, your stock plan will detail when or whether vesting continues or stops. It is advisable to closely review your stock plan provisions for the rules and definitions that apply to "normal" retirement and "early" retirement (if it makes this distinction). Then choose a retirement date that **maximizes** the number of vested options and shares.

When it comes to stock options, in particular, it is prudent to begin a regular program of exercising your options well before retirement. This will prevent the need to exercise all stock options just before or at retirement when you need increased stability. It also helps you diversify should too much of your net worth be linked to movements in your company's stock price.

8) One-time sources of income:

Consider expected lump sums, such as life insurance proceeds, inheritance, or net proceeds from the sale of property or a business.

9) Additional Income Sources:

You may have other fixed or regular sources of income, such as rental income, deferred compensation, and alimony. It is important to determine when payments may cease and the tax implications of the payments.

Step 4:

MINIMIZE TAX BURDENS

Taxes are an inevitable cost that is incurred anytime income is involved, including your retirement paycheck. To increase the longevity of your portfolio, it is important to properly time your withdrawals from each account in such a way that minimizes the amount of taxes you will pay overall.

ESSENTIALLY, EACH OF YOUR ACCOUNTS WILL FALL INTO ONE OF THREE CATEGORIES:

(1) **Taxable (bank accounts or brokerage accounts)**

(2) **Tax-deferred (such as traditional IRAs or 401(k)s and other employer plans)**

(3) **Tax-free (from Roth IRAs or Roth employer plans)**

It is usually best to start depleting your taxable assets before spending from tax-deferred. This has two benefits for the longevity of your portfolio: it allows your tax-sheltered accounts to continue to grow as long as possible and it decreases the amount of taxes paid.

When you withdraw from your tax-deferred accounts, you will pay ordinary income taxes on the entire amount withdrawn rather than just capital gains tax on the appreciated amount. And since ordinary income taxes are typically higher than capital gains tax, you would be paying a higher percentage of tax on your withdrawals.

The only caveat to this rule is if you can withdraw from your tax-deferred accounts at a low tax rate because either you have minimal income or increased deductions that make it more advantageous to take a withdrawal from your tax-deferred account.

Tax considerations are not only critical when making withdrawals, but also when constructing a portfolio. In order to maximize after-tax returns, it is smart to hold tax-efficient investments in taxable accounts and tax-inefficient investments in tax-advantaged accounts. Knowing which assets to buy and what type of accounts to hold them in will drastically improve your retirement savings by lowering your taxable income.

Step 5:

MANAGING THE PERSONAL SIDE OF YOUR RETIREMENT TRANSITION

Financial factors are only one side of the retirement planning coin. The personal, physical, and emotional considerations are the other, and are just as important to consider since the way you design your lifestyle in retirement will impact your health, wealth, and overall happiness.

The non-financial challenges transitioning from your working years to your non-working years can oftentimes be the most complicated part of the passage. Emotions can get turbulent, relationships can get strained, attention spans can be short, and you may feel overwhelmed and unable to make decisions. Many individuals don't anticipate how changes in routine, social networks, income, and responsibilities will affect them on an emotional level.

AS YOU APPROACH THE PLANNING PROCESS, TAKE SOME TIME TO ASK YOURSELF THE FOLLOWING QUESTIONS:

- **What gives meaning to my life?** What do I value and makes me feel fulfilled?
- **Who do I want to be? What have I missed?** How do I feel about establishing a new identity?
- **How will I spend my time?** Do I have enough structure, routine, and activities to fill my day, both short and long term?
- **To whom will I "matter"?** Who will make me feel noticed, appreciated, and needed?
- **With whom will I interact and socialize on a regular basis?** Where will I feel a sense of community and belonging?
- **How do I feel about income change or not receiving a paycheck?** Will I have enough income to do the things that are important to me?
- **What is my physical health?** How will this impact my options?

Replacing the purpose and structure that our careers once provided can seem like an overwhelming challenge at first, but it can also be a liberating one. Be open-minded about the different directions your retirement could take. For many, retirement can be a time to explore new passions, fulfill new purposes, and become more in tune with oneself. And with any luck, you'll emerge with a greater sense of self and purpose. Research has even found that individuals who feel they lead lives of purpose and meaning enjoy longer lifespans than their peers.

All in all, money alone will not create a rewarding retirement experience. Managing the personal and emotional sides of retirement is critical for making a smooth transition from the things you have done, to the meaningful and engaging things you will do. The most successful retirement transitions take place when an individual has planned a retirement that meets both their personal and financial needs and provides them with a sense of purpose.

SPECIAL RETIREMENT CONSIDERATIONS FOR WOMEN

At the heart of it, women face many of the same retirement challenges as men, such as saving enough money, outliving her assets, and eventually needing long-term care. However, for many women, retirement planning can be a bit more difficult. The gender wage gap, periods of time outside the workforce, longer life expectancies, and the rise of divorce rates make retirement planning for women more complex.

WOMEN OFTEN EARN LESS AND LIVE LONGER:

At the heart of it, women have *less time* to earn and save *more money* for statistically longer retirement periods because of their longer life expectancies, their tendency to fulfill caregiving roles in favor of working, and the gender wage gap.

The life expectancy for a woman age 65 is another 21 years. That is 3 years more than for a man of the same age.[v] Longer life expectancies mean women need to plan for longer spending periods, which involves building heftier savings accounts and putting long-term care plans in place to cover a longer duration of life.

But, time taken off from the workforce and the gender wage gap make retirement preparedness particularly challenging.

Taking time off work for either gender disrupts sustained accumulation periods. However, in her caretaking capacity, a woman may have two periods in her life where she finds herself leaving the workforce—once to have her own children and once should her parents require assistance in their old age. On average a woman spends nine more years out of the workforce than a man.[vi] A man's career is virtually uninterrupted allowing him to consistently earn, save, and increase his annual retirement contributions year after year. A caretaking woman is not afforded that same benefit. Due to fewer continuous working years, she is unable to contribute as much to her retirement account as her average male counterpart.[vii] Women need to think carefully before taking time off for caregiving and calculate how the decision could affect their future financial security.

Even if a woman was never to take a break in her working years, she is still at a financial disadvantage due to the gender wage gap. Even though women now make up nearly half the workforce, they still only earn $.79 for every dollar a man makes.[viii] This is a wage gap of 21%! Not only does this gap diminish a woman's saving and investing power, but also negatively affects her social security benefit amount in retirement as compared to her male counterpart.

With less to work with over a longer period of time, the average woman must begin retirement planning as soon as possible and may need to make more aggressive investment decisions in order to be fully prepared to fund her retirement years.

DID YOU KNOW?

There are several factors that make women's retirement challenges unique. Women should consider that they will likely need to save for more years of retirement income than men and may have to make special considerations to do so given any caretaking roles, the wage gap, and the potential to end up alone later in life. Investing early and consistently as well as becoming financially savvy can help women prepare for the long, rewarding retirements they deserve.

WE CAN’T IGNORE THE FACTS:[IX]

- Women’s average life expectancy is 5 years longer than men’s.
- Nearly 50% of all marriages are likely to end in divorce.
- 8 out of every 10 women will end up alone and in-charge or her own finances.
- The median age of widowhood is only 59 years old.
- The divorce rate of couples over 50 has doubled in the past thirty years.

WOMEN ARE MORE LIKELY TO SPEND THEIR FINAL YEARS ALONE DUE TO DEATH OR DIVORCE.

All of these statistics point to one sobering fact: women need to prepare for the very real, and statistically probable possibility, that they may end up single later in life either due to death or divorce.

While neither of these unfortunate circumstances can be predicted, it is possible for women to arm themselves with the necessary financial knowledge they’ll need should they find themselves in one of these predicaments.

When the March 2019 UBS Own Your Worth Survey polled hundreds of divorced and widowed women about the financial challenges they faced on their own, 60% percent “regrettably wish they has been more involved in long-term financial decisions while they were married”[x] and 98% percent urge other women to become involved earlier on.

Staying abreast of your financial situation such as your total assets and where they are located, your liabilities and payment schedule, and where your spouse’s estate planning documents are and if they are up to date, can help smooth these transitions.

It is important to consider the financial impact of the unexpected loss of a spouse. One way to stress test for the possibility of widowhood or divorce is to consider the possible changes that would occur if you were left to manage your finances on your own, such as a loss of income, decreased social security benefits, and the expense of managing a household on your own to name a few. It involves answering some tough questions.

> ***Will you be able to stay in your current residence, or will you need to downsize? Will you need to work or earn more? Will you need to hire care providers for your children? If you rely on your spouse for any type of daily assistance, will you need to hire a caretaker to help you in his absence? Will you have any liquidity and access to cash flow? How will you save or fund your retirement?***

Having this information on hand will help you make important decisions now to maintain your financial wellness should you suddenly become single.

8 out of every 10

women will end up alone and in-charge or her own finances.

With longer retirements, retirees today have more opportunities than ever to live full, meaningful, and purposeful lives for decades after they leave the work force. Retirees who successfully plan for the transition to retirement will be free to spend their golden years exploring new possibilities, spending time with those they love, and living life on their own terms, rather than worrying about the future of their financial security. Retirement is about so much more than just living—it's about discovering, thriving, and living life to its full potential.

It's important to remember that retirement plans aren't etched in stone; annual reviews, in addition to adjustments that account for major life changes, will be necessary to keep you on track to reach your goals. If you're concerned your current plan won't satisfy your retirement needs, we would be happy to sit down with you and review your opportunities. If you have yet to begin planning for this life-changing transition, contact us and we'll help you get started.

ENDNOTES

[i] Social Security Administration, www.ssa. gov/planners/lifeexpectancy.html

[ii] Malone, Matthew. “What is a Roth IRA?” RothIRA.com. April 8, 2019.

[iii] 2018 Retirement Confidence Survey. Employee Benefit Research Institute. April 8, 2019.

[iv] “Adult Development in Japan and the United States: Comparing Theories and Findings About Growth, Maturity, and Well-being.” https://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199948550.001.0001/oxfordhb-9780199948550. 29 May 2019.

[v] The Centers for Disease Control and Prevention, “National Vital Statistics Report,” Volume 66, April 2017.

[vi] Pew Research Center & Social Security Administration, “Lifetime Years in the Workforce by Gender.” 2014

[vii] Rappaport, Anna, and Nevenka Vrdoljak. 2018. Women and Retirement Security. CIO, global Wealth & Investment Management at Bank of America (winter).

[vii] Social Security Administration, www.ssa. gov/planners/lifeexpectancy.html.

[viii] “The State of the Gender Pay Gap 2019.” https://www.payscale.com/data/gender-pay-gap. 21 May 2019.

[ix] “Own Your Worth.” https://www.ubs.com/content/dam/WealthManagementAmericas/documents/2018-37666-UBS-Own-Your-Worth-report-R32.pdf. 21 May 2019.

[x] Ibid.

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